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C O N F I D E N T I A L SECTION 01 OF 03 BUENOS AIRES 000160

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SUBJECT: ARGENTINA: INFLATION TAMPERING CONTINUES?

Classified By: Ambassador E. Anthony Wayne for Reasons 1.4 (b,d)

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Summary  
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¶1. (C) Official inflation numbers continue to make headlines in Argentina, with the national statistics agency INDEC reporting January inflation of only 0.5% month-over-month, less than one third the 1.7% "true" rate estimated by private economists. For full-year 2008, INDEC reported inflation of only 7.2%, the lowest level since 2004 and one-third to one-half of private estimates. Beyond the disparity between INDEC and private estimates, many local economists believe real inflation is decelerating along with the Argentine economy. INDEC's underreporting also seems to be affecting social indicators, with the private sector estimating true Argentine poverty levels at almost 32%, compared to INDEC's 18%. The apparent continued manipulation also promises to complicate wage negotiations with labor leaders, who are calling for 20% increases this year and arguing that what counts are the real costs not statistics. The January INDEC report has thrown cold water on local hopes that the GoA would take advantage of perceived deceleration in inflation to rehabilitate official inflation numbers. It may also call into question the assumption that inflation is slowing. End Summary.

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INDEC Surprises Even the Cynical with February Inflation  
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¶2. (SBU) INDEC continues to generate controversy, announcing February 11 that the January benchmark Consumer Price Index (CPI) increased only 0.5% month-over-month (a 6.2% annual rate), well below private analysts' estimates of "real" or "true" inflation of about 1.7% m-o-m (a 22% annual rate). The result was even below the 0.6% m-o-m increase that analysts had expected INDEC to announce. Year-on-year, the CPI was 6.8% in January, compared to 7.2% in December.

¶3. (SBU) INDEC's January estimate correctly reports lower prices for meats, grains, and edible oils, in part reflecting much lower world commodity prices, and it also incorporates the GoA's recent tariff hikes for transportation and communication. However, INDEC did not fully take into account the GoA's recently enacted increases in public services, such as highway tolls and utility tariffs. (The GoA has argued these increases mostly affect the wealthy, who comprise a minority of households.) INDEC's report also does not seem to reflect the higher vegetable and fruit prices resulting from the current severe drought. These are the areas that private economists argue are responsible for a m-o-m CPI increase closer to 2%.

¶4. (SBU) Although private analysts openly disparage INDEC inflation reports as completely compromised, the general consensus in late 2008 was that inflationary pressures were slowly subsiding in response to the sharp deceleration of domestic economic activity, tighter monetary policy, and higher interest rates. Reflecting this shared belief, analysts' forecasts late last year anticipated 2009 inflation at the lower end of the 15-20% range, with optimists such as Bein and Asociados predicting it as low as 12%. However, the relatively high result in January may bring into question the accepted wisdom that inflation is subsiding significantly.

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Huge Disparity between Official and Private Estimates  
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¶5. (C) INDEC's full-year inflation rate of 7.2% for 2008 came in just under the estimated 7.3% annual inflation rate the GoA had included in the 2008 budget. It is also significantly lower than INDEC's estimate of 8.5% for 2007 and is the lowest official inflation rate since 2004, when the annual CPI increased 6.1%. (Comment: INDEC allegedly began manipulating and underreporting official CPI numbers in January and February 2007. Private economists estimate 2007 CPI inflation at approximately 18-20% y-o-y, although former INDEC employees, fired for refusing to go along with the manipulation, estimate "true" inflation in the range of 22-26%.)

¶6. (SBU) In sharp contrast to the 2008 7.2% official annual CPI increase, private economists' estimate 2008 inflation in the range of 15-25%. For example, the most well-known and

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respected local private consulting firms provided the following estimates for 2008 annual inflation: Equis (18%); Bein and Asociados (19%); Economia y Regiones (19%); Abeceb.com (20%); Evaluadora Latinoamericana (20%); Prefinex (21%); Ferreres and Asociados (22%); and Ecolatina (23%). Former Minister of Economy Roberto Lavagna has also criticized official CPI figures, calling them "basically false numbers, nonsense," and providing his own estimate of 23% for 2008.

¶7. (SBU) Evidence of higher actual inflation also comes from the provinces. Argentina's largest daily circulation newspaper, "Clarín," reported January 25 that many provinces -- including Santa Fe, Rio Negro, San Luis and Chubut -- on average experienced 20% inflation in 2008. (Comment: INDEC's benchmark CPI index actually only surveys the greater Buenos Aires area. In the past INDEC also reported a "National CPI," which was a weighted average of seven provinces (Buenos Aires, Mendoza, San Luis, Cordoba, Santa Fe, Tucuman and Catamarca), but INDEC appears to have ceased to report this indicator when it introduced new inflation methodology in May 2008.)

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Impact on Social Indicators  
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¶8. (C) INDEC's underreporting of inflation dramatically distorts the measurement of key social indicators, especially sensitive in an election year. For example, INDEC reports that the basic food basket, used to measure the level of indigence, increased only 0.5% in 2008, and the total basic basket, which includes non-food items such as rent and education and is used to measure poverty levels, increased only 2.6% for the year. In contrast, local think tank SEL Consultores estimates that the price of the total basic basket increased 11.4% in 2008, more than four times INDEC's reported level. Using its inflation figures, INDEC reports poverty at 17.8% of the population, and indigence at 5.1%, for the first quarter of 2008 (the latest available). SEL Consultores, using more reasonable inflation numbers, estimates poverty at 31.6% (or 11.3 million people) and

indigence at 10% (or 3.9 million people) for the same period.

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Labor's Response to INDEC Underreporting  
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¶9. (SBU) Following INDEC's mid-January release of 2008 inflation data, Hugo Moyano, the powerful (and government-aligned) Secretary General of Argentina's workers confederation (CGT), announced the CGT would use its own "housewives CPI" (or "supermarket CPI") instead of official numbers during wage negotiations with the government and private companies. Moyano's deputy in the CGT, Juan Belen, subsequently stated that the floor for wage increases should be 18-20%, similar to the Argentine Social Security Agency's (ANSES) 17-18% increase for pensioners in 2009 (Comment; the ANSES action is required to comply with the Pension Adjustment Law that Congress approved October 2008.) Press reports state the GoA wants to limit wage increases in the 13% range, while companies hope to contain them to 10% or lower.

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Comment: Hopes Dashed for Rehabilitation of INDEC  
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¶10. (C) Many of those analysts who expect "true" inflation to decelerate in 2009 have hoped that the GoA would use this "golden opportunity" to narrow the distance between official and private estimates, slowly raising INDEC estimates to meet the slowing "true" rate of increase. However, the results from January do not provide evidence to support this expectation, with INDEC undercutting the very low level the market had expected it to announce, and during a month where "true" inflation was high due to public utility tariff increases. A more important question is whether the relatively high "true" rate for January is an indication that inflation is not decelerating as expected, or at least not as quickly. The jury is still out: for all the economists pointing to lower economic output, lower commodity prices, and higher interest rates, there are others warning about countervailing inflationary pressures, including the central bank's managed depreciation of the peso, and about repressed inflation caused by price controls and export restraints, and predicting that the GoA will run a deficit in coming years,

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which the BCRA will have to monetize. Clearly a critical variable will be upcoming union wage negotiations. Submitting to current union demands may well mean that 2009 inflation once again ends up near the high end of private analysts' 15-20% range. End Comment.

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